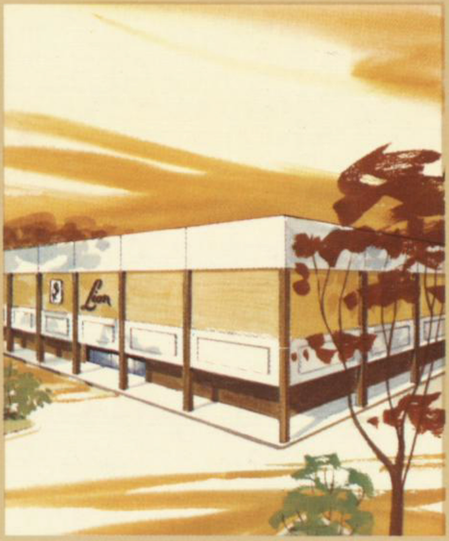
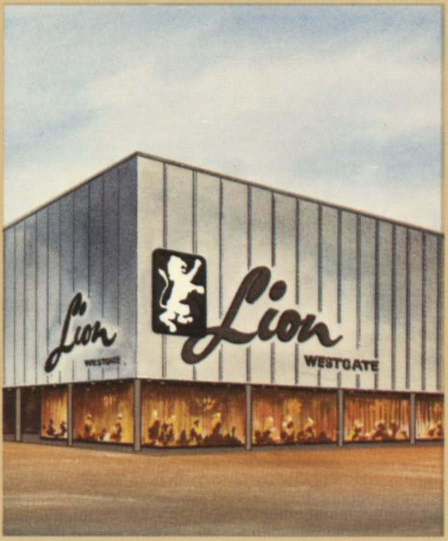
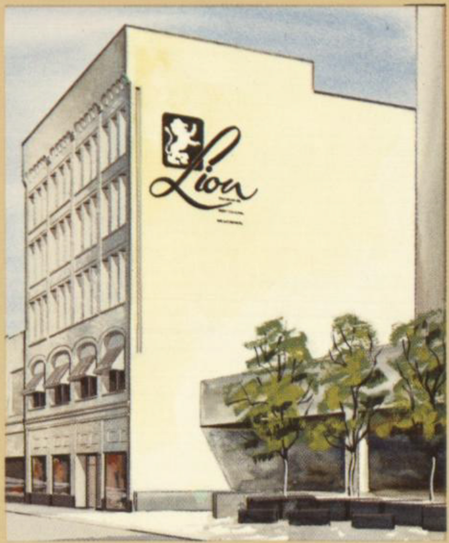
mercantile stores company inc.
annual report 1972

CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE




Lion
WESTGATE
Lion
WESTGATE



Lion

TOLEDO, OHIO

contents

1 Directors and Officers

2 Financial Highlights in Brief

3 Letter to the Stockholders

5 Financial and Operating Review

13 Financial Statements

18 Ten Year Review

21 Special Report — The Lion Stores

24 List of Locations

Represented in the markets by:

Mercantile Stores Company, Inc. (N. Y.)
128 W. 31st Street
New York, N. Y. 10001

Cable Address: Merstore

Stock Transfer Agent:

Chemical Bank
20 Pine Street
New York, N. Y. 10015

Registrar of Stock:

First National City Bank
399 Park Avenue
New York, N. Y. 10022

annual meeting

The Annual Meeting of Stockholders will be held at 11:00 a.m., on Wednesday, May 23, 1973 at 100 West 10th Street, Wilmington, Delaware. All stockholders are cordially invited to attend.

mercantile stores company, inc.

100 west 10th street — wilmington, delaware

Lion
Lion
Lion

directors

John E. Bierwirth
Chairman and a director of
National Distillers and Chemical Corporation.

F. K. Bradley
Retired
Mercantile Stores Company, Inc.

Morgan A. Casey
Consultant
Mercantile Stores Company, Inc.

William W. Geddes
President and Chief Executive Officer and a
director of Wilmington Trust Company,
Wilmington, Delaware.

Harold W. Jockers
Chairman of the Executive Committee
Mercantile Stores Company, Inc.

F. G. Kingsley
Vice-President and a director of
Deering Milliken, Inc.

Gerrish H. Milliken
Vice-President and a director of
Deering Milliken, Inc.

Minot K. Milliken
Vice-President, Treasurer and a
director of Deering Milliken, Inc.

Roger Milliken
President and a director of
Deering Milliken, Inc.

George S. Moore
Director of White, Weld & Co. Incorporated
and a director of White, Weld & Co. Limited.

R. Nelson Shaw
Chairman of the Board
Mercantile Stores Company, Inc.

Charles E. Stallings
Vice-President
Mercantile Stores Company, Inc.

William G. Stubenvoll
President
Mercantile Stores Company, Inc.

officers

R. Nelson Shaw
Chairman of the Board

William G. Stubenvoll
President

Harold W. Jockers
Chairman of the Executive Committee

F. G. Kingsley
Chairman of the Finance Committee

Frederick W. Bleckwenn
Vice-President

William A. Heineman
Vice-President and Treasurer

Edward J. Sharkey
Vice-President

Charles E. Stallings
Vice-President

Leon F. Winbigler
Vice-President

Walter H. Bosch
Controller

Aarold G. Asp
Secretary

financial highlights in brief

	1972 ***(Year Ended Jan. 31, 1973)***	1971 *(Year Ended Jan. 31, 1972)*
Operating Results:		
Net sales	**$458,328,000**	$393,258,000
Sales increase percentage	**16.5%**	11.3%
Income before income taxes	**39,156,000***	32,641,000
Percent to sales	**8.5%**	8.3%
Net income	**20,756,000***	17,251,000
Percent to sales	**4.5%**	4.4%
Per Common Share:		
Net income	**$7.04***	$5.85
Dividends	**1.40**	1.40
Cash flow	**9.98**	8.20
Financial Position:		
Working capital	**$88,127,000**	$84,153,000
Ratio of current assets to current liabliities	**2.73**	3.14
Receivables — net	**18,225,000**	14,153,000
Due from Mersco Finance Corporation	**28,493,000**	26,661,000
Merchandise inventories	**79,975,000**	65,422,000
Property and equipment — net	**87,368,000**	76,538,000
Total assets	**229,813,000**	201,885,000
Long term debt	**34,243,000**	35,819,000
Stockholders' equity	**139,647,000**	123,018,000
Per common share	**47.37**	41.73
Ratio of net income to invested capital	**15.8%**	14.8%
Stores at end of year	**71**	69
Total square feet	**6,863,000**	6,256,000

** Included in the income for 1972 is a gain on sale of land equal to $.14 per share.*

to our stockholders

April 20, 1973

The year 1972 which ended January 31, 1973 continued the growth pattern of recent years.

Sales

$458,328,000, an increase of 16.5%.

Net Earnings

$20,756,000—$7.04 per share, an increase of 20.2% (which included a non-recurring gain of $414,000, or 14¢ per share).

The Financial and Operating Review which begins on page 5 outlines in detail our operations during the past year.

Stock Split And Dividend Increase

The Board of Directors, on April 5, 1973, adopted a resolution in which it was proposed, subject to the approval of the stockholders, that the Certificate of Incorporation of the Company be amended to split up the presently authorized common shares of the Company on the basis of two shares for one. The details of the proposed amendment are set forth in the proxy statement accompanying this report.

In addition, the Directors expressed their intention to increase the annual dividend from $1.40 to $1.60 per share on the basis of the old stock. If the stock split is approved, the new stock would pay 80¢ per share, at a quarterly rate of 20¢ per share. The increased dividend would be payable June 15, 1973, to stockholders of record June 1, 1973.

The increased dividend is subject to the approval of the U.S. Committee on Interest and Dividends but our legal counsel advises us that the increase falls within the guidelines of the Committee and therefore approval should be forthcoming.

A Decade Of Growth

Ten years ago, sales were slightly less than $184,000,000 compared to the latest year when they exceeded $458,000,000 almost 2½ times more. Sales have increased at a compound annual rate of 9.5%.

During this decade, net income (from normal operations) has risen from $4,888,000 to $20,342,000, an increase at a compound annual rate of 15.3%. Earnings have risen from $1.66 to $6.90 per share.

We are operating only 11 more stores than we did ten years ago, but the numbers themselves belie the activity that has actually occurred, for we

ADDED — 20 new stores,
ENLARGED — 9 existing stores,
RELOCATED — 7 stores and have
CLOSED — 9 stores, not including those relocated (8 were small units).

Another way of stating it—we opened 27 stores, closed 16 and enlarged 9, increasing our square footage from 4,113,000 to 6,863,400.

It was a period in which we expended more than $98,000,000 for capital improvements.

Book value rose from $19.41 to $47.37 per share.

The Next Decade

As we look ahead, we are convinced that we have developed a pattern of doing business that will serve us well in the future. We will continue to do that which we know best—running our kind of department store, selling medium to better priced goods, with increasing emphasis on the fashion side in home furnishings as well as men's, women's and children's apparel.

Our stores may vary in size, but not in their "character."

As we look into the future, however, a word of caution would appear to be in order.

We have previously called attention to the expansion of retail space in the industry that has continued over the past several years; lately, it seems, at an accelerating rate, not only by discounters and mass merchandisers but by traditional department stores as well.

It is necessary for us to plan at least 3 to 5 years ahead and sometimes longer. We are completing now our plans for 1976 and 1977. Our expansion in the last several years has been at a higher rate proportionally than some of our competitors. It has been necessary to increase our long term debt to finance this expansion. In addition, by following a very modest dividend policy, our expansion was considerably more than would have been prudent otherwise. We feel that this has been very rewarding for our stockholders.

As in other industries in the past, we feel that retailing is reaching a point of over-expansion in which it may experience lower profit margins in the future.

Nevertheless, it is the responsibility of your management to meet the challenges of changing conditions and to overcome them. We have confidence in the long term prospects of your Company.

The Lion Stores in Toledo, Ohio, under the able management of Mr. Leon F. Winbigler, which we feature in this report, is one of the many divisions which gives us some of that confidence.

Recent Trend

Sales for the month of February reflected an increase of 13.8% while March finished up 14.2%, for a year-to-date increase of 14.0%.

We extend our thanks and gratitude to those who serve—our employees; to those who furnish us with the merchandise—our vendors; and those to whom all our efforts are directed—our customers.

Respectfully submitted,

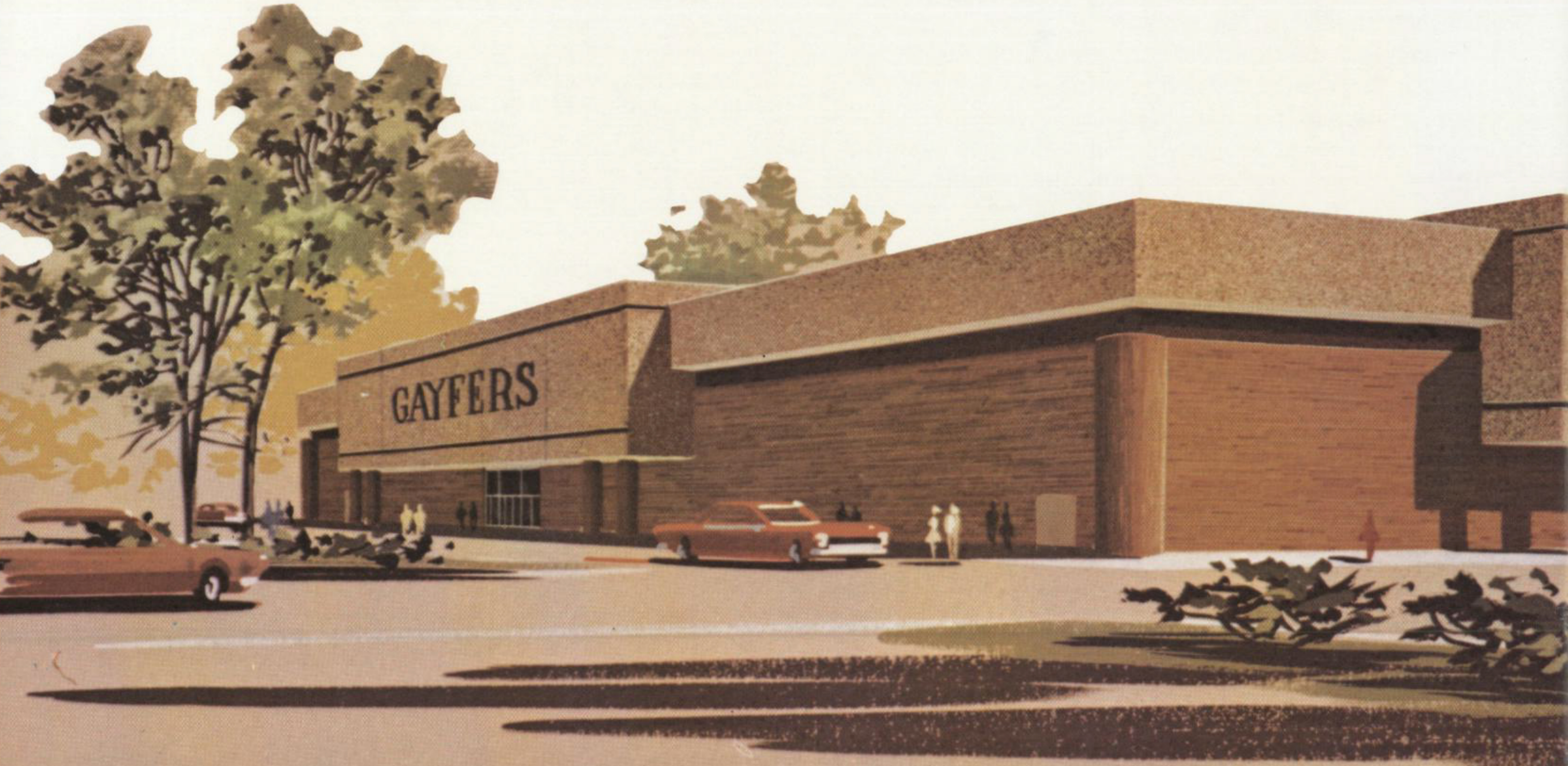
R. Nelson Shaw

R. Nelson Shaw, *Chairman of the Board*

William G. Stubenvoll

William G. Stubenvoll, *President*

By Order of the Board of Directors



The consolidated financial statements include the accounts of Mercantile Stores Company, Inc. and its wholly owned subsidiaries, except for Mersco Finance Corporation. The Company's investment in the finance subsidiary is carried at equity in its net assets.

Income before income taxes of Merco Finance Corporation has been reflected in the statement of consolidated income as a reduction of interest expense. The consolidated financial statements issued in prior years included the accounts of Mersco on a fully consolidated basis. Prior year's financial statements have been restated to reflect the equity method of accounting for the investment in Mersco which had no effect on net income previously reported.

The consolidated statements include the equity in the earnings of affiliated companies owned 20 percent or more, which are joint ventures of the real estate subsidiaries.

Sales

Sales for the year ended January 31, 1973 totaled $458,328,000, an increase of 16.5% over the previous year's $393,258,000. This marked the 17th consecutive year in which sales have set new highs.

Sales in stores opened prior to February 1, 1971 (at least two full years) had an increase of 8.7%.

Net Sales (thousands)

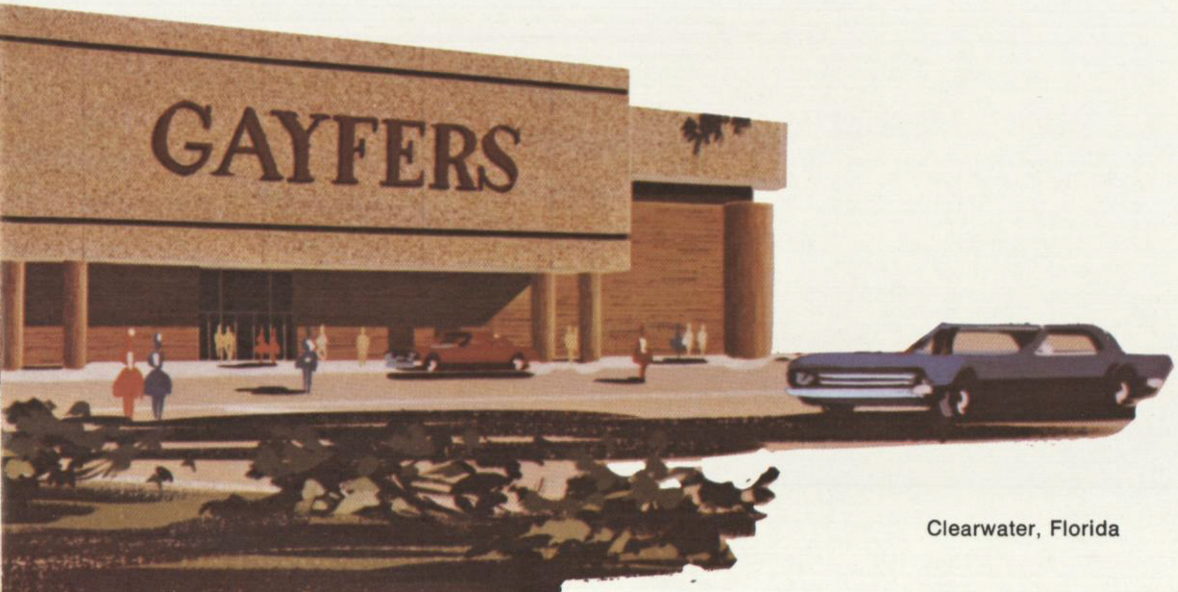
Quarter	1972	1971	Percent Increase
1st	$ 87,378	$ 77,516	12.7
2nd	100,030	86,482	15.7
3rd	112,418	94,312	19.2
4th	158,502	134,948	17.5
	$458,328	$393,258	16.5

The Company operated 71 stores at year-end. Sales outside of its central downtown area stores represented 76% of the total net sales of the Company.

Earnings

Net income from all operations was $20,756,000, an increase of 20.3% over the record earnings of $17,251,000 for the prior year. However, this latest year included a non-recurring gain of $414,000 largely from the sale of land in Canada no longer useful in the business. Eliminating this gain would reduce net income to $20,342,000.

Per share earnings were $6.90 from normal operations plus 14¢ from the non-recurring item for a total of $7.04. Last year we earned $5.85 per share.



Clearwater, Florida

There was a sizable increase in the investment tax credit in 1972. The dates in the statute reinstating the investment tax credit worked to our disadvantage last year as we only realized $201,000, or 7¢ per share. In this latest year, our allowable investment tax credit amounted to $668,500, or 23¢ per share.

Operating income increased to $38,699,000 and represented 8.4% of sales. In the previous year, the Company earned $32,641,000 and the percentage was 8.3%.

Net Income (thousands)

	1972		1971	
Quarter	Amt.	Per Share	Amt.	Per Share
1st	$ 2,757	$ .94	$ 2,410	$ .82
2nd	2,731	.92	2,605	.88
3rd	4,673	1.59	3,876	1.32
4th	10,181	3.45	8,360	2.83
	20,342	6.90	17,251	5.85
Non-recurring gain	414	.14	—	—
	$20,756	$7.04	$17,251	$5.85

Dividends

The Company, relying to a large degree on funds generated internally for its expansion, continued its dividend at the rate of $1.40 per share, payable 35¢ per share on the 15th day of March, June, September and December. Dividends totaled $4,127,000, slightly more than 20% of net income.

The Directors have expressed their intention to increase the annual dividend as set forth in the Letter to the Stockholders.

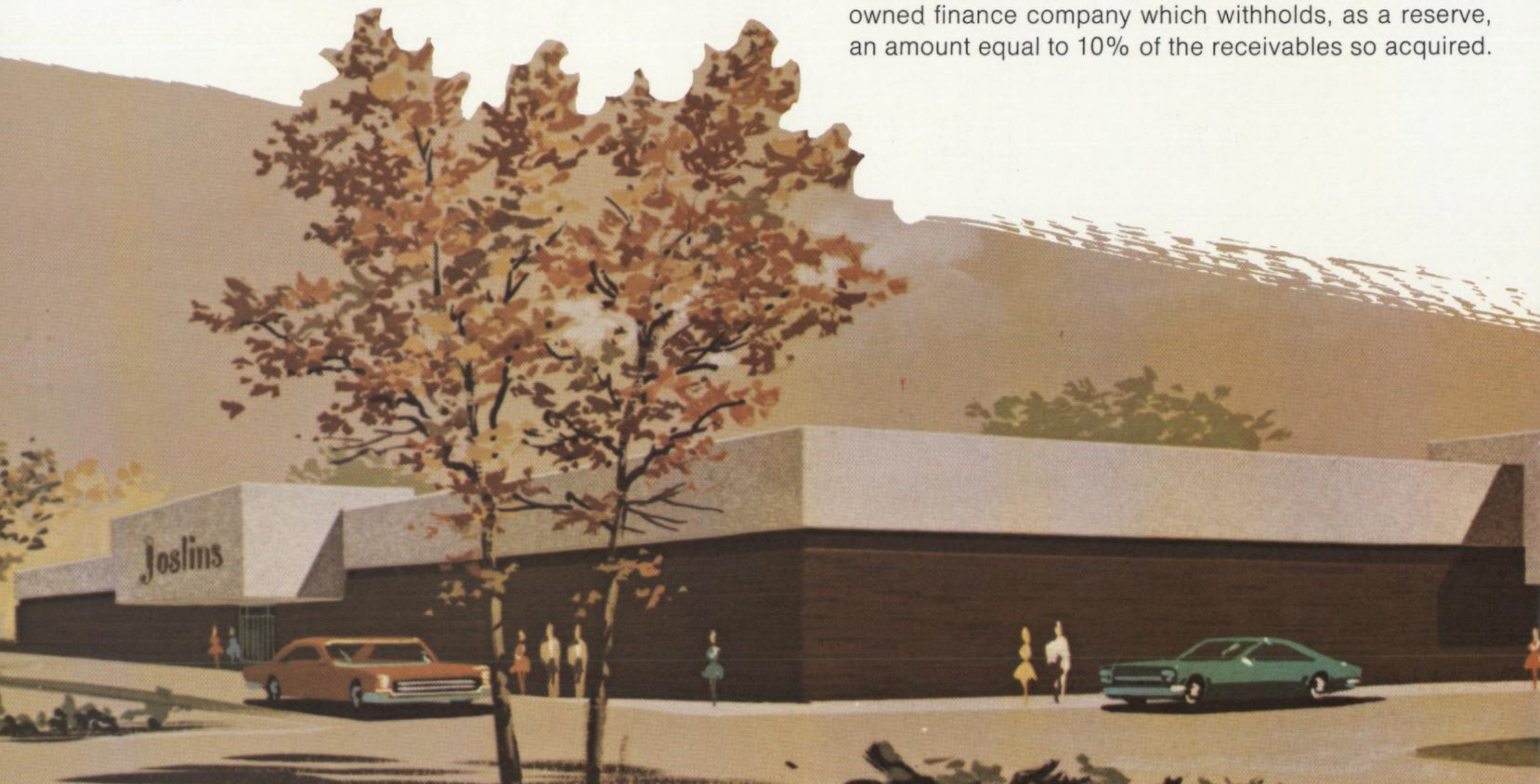
Debt

No long term debt was incurred by the Company and its consolidated subsidiaries during 1972.

Debt outstanding was as follows:

	January 31	
	1973	1972
8.70% Sinking Fund Debentures due 1995	$25,000,000	$25,000,000
5⅛% Notes due 1978—$333,000 due annually to 1977 with $2,500,000 due December 1, 1978	4,170,000	4,503,000
4% to 6⅛% Mortgage Notes—generally payable quarterly over the life of the mortgage	6,502,000	7,759,000
	35,672,000	37,262,000
Less—due within one year	1,429,000	1,443,000
	$34,243,000	$35,819,000

The Company relies primarily upon the sale of its customer receivables to provide the funds required for short term needs. The Company finances receivables by utilizing its own finance company, Mersco Finance Corporation. The Company sells its revolving and installment sales accounts, without recourse, to its wholly owned finance company which withholds, as a reserve, an amount equal to 10% of the receivables so acquired.



The following are summary balance sheets for Mersco Finance Corporation:

	January 31 (in thousands)	
	1973	1972
Assets		
Customer receivables purchased from Mercantile Stores Company, Inc.	$48,205	$ —
Equity in customer receivables sold (uncollected balances of $4,293,000 and $42,800,000, respectively)	429	30,903
Other accounts	—	264
Less—Amount payable to Mercantile Stores Company, Inc. pending collection of customer receivables	(5,250)	(4,280)
	43,384	26,887
Cash	20	12
Total Assets	$43,404	$26,899

	January 31 (in thousands)	
	1973	1972
Liabilities and Stockholder's Equity		
Current Liabilities—		
Due to Mercantile Stores Company, Inc.	$28,493	$26,661
Due to bank	1,637	—
Federal income taxes	101	6
	30,231	26,667
Long Term Notes—repayable in 16 equal quarterly installments beginning April, 1976	12,000	—
Investment of Mercantile Stores Company, Inc.—	1,173	232
Total Liabilities and Stockholder's Equity	$43,404	$26,899

Mersco Finance Corporation currently charges a discount which is equal to one and one half times its fixed charges.

Prior to July, 1972, all receivables purchased from the Company were sold by the finance company to a bank.

The finance company now borrows from banks on a short term as well as on a long term basis in order to finance the purchase of receivables from the Company. At a later date, the finance company will consider the sale of its own short term notes (commercial paper) directly to investors.

The Company cancelled the Credit Agreement under which it could have borrowed up to $40,000,000, believing that the commitment was unnecessary in view of the open bank lines it maintains with a number of major banks in New York, (notably one with First National City Bank for $25,000,000) as well as offers from a considerable number of the banks with which its stores maintain banking relationships throughout the country.

For the year just ended, interest costs increased by $396,000 due to the higher short term interest rates and heavier borrowings which prevailed, especially during the latter part of the year. The income before

Greeley, Colorado

income taxes of Mersco Finance Corporation is used to reduce the interest expense of the Company.

Additions and Improvements to Property

During the year, capital expenditures amounted to $19,766,000, almost $750,000 less than that spent during 1971.

It is expected that capital expenditures in 1973 will approximate $19,000,000, which will include sizable warehouses in Louisville, Ky. and Cincinnati, Ohio.

On the books of the Company, the expenditures for buildings, equipment and fixtures are depreciated on a straight line basis over the estimated useful lives of the assets. Improvements to leased premises are written off on a straight line basis over the life of the lease or the useful life of the improvement, whichever is shorter.

On the Company's tax returns, accelerated depreciation is used where permissable and the related deferred income taxes are included in Deferred Income Taxes on the Consolidated Balance Sheets.

Depreciation for the year amounted to $7,557,000, an increase of $1,322,000 over that provided in 1971.

Leases

Of the 71 stores operating at year-end, forty-five were leased, twenty were owned and six were partly owned and leased.

A summary of the Company's lease commitments is as follows:

expiring during fiscal years ending Jan. 31st	number of leases	minimum annual rental
1974-76	32	$ 305,000
1977-79	23	410,000
1980-84	18	691,000
1985-89	14	1,100,000
After 1989	33	3,616,000
	120	$6,122,000

Many of the leases require additional payments for real estate taxes and insurance as well as rentals based on percentages of sales.

Expansion

The Company fulfilled its expansion plans for the past year with the opening of the following stores:

location	square footage	opening date
Cincinnati, Ohio	188,000	June 4, 1972
Toledo, Ohio	185,000	August 5, 1972
Fargo, North Dakota	102,000	August 4, 1972
Louisville, Kentucky	185,000	October 1, 1972

and the addition of 35,000 sq. ft. to its Blue Ridge store in Kansas City, Missouri and 57,000 sq. ft. to its Green Hills store in Nashville, Tennessee.

The Company's downtown stores in Fargo, North Dakota (63,300 sq. ft.) and Louisville, Kentucky (81,700 sq. ft.) were closed prior to the opening of the new suburban stores for those areas.

In 1973, we will follow a similar pattern of expansion opening the following stores:

location	square footage	opening
Clearwater, Florida	135,000	April
Duluth, Minnesota	135,000	August
Greeley, Colorado	90,000	July
Auburn, Alabama	90,000	August

and we will close the smaller units at Greeley, Colorado (21,700 sq. ft.) and Opelika, Alabama (31,500 sq. ft.) by mid-year.

In addition we will expand our Harding Mall store in Nashville, Tennessee by 50,000 sq. ft. and our National Hills store in Augusta, Georgia by 40,000 sq. ft.

Our growth pattern of recent years will be followed in the future but, because of lease and real estate arrangements, it will vary year by year. In 1974, our present plans are for one new store and major expansion of three existing stores.

At January 31, 1972, we reported 6,256,400 sq. ft. of gross space, exclusive of warehouse facilities. We added 660,000 sq. ft. with new stores, 92,000 sq. ft. by expansion and lost 145,000 sq. ft. with the closing of two stores for a net addition of 607,000 sq. ft. which brought our total to 6,863,400 sq. ft. at January 31, 1973.

Advanced Systems

The installation of Point of Sale Terminals (electronic sales registers) started last year and because of its successful operation will be continued in the future. At the end of 1973, eleven stores will have been equipped with more than 500 terminals. In addition, experiments are being conducted with this particular type of equipment for possible use in new areas of our business.

The data processing equipment in our regional data centers will be upgraded next year in order to handle the increased work load due to the addition of new units and to provide for the anticipated expansion.

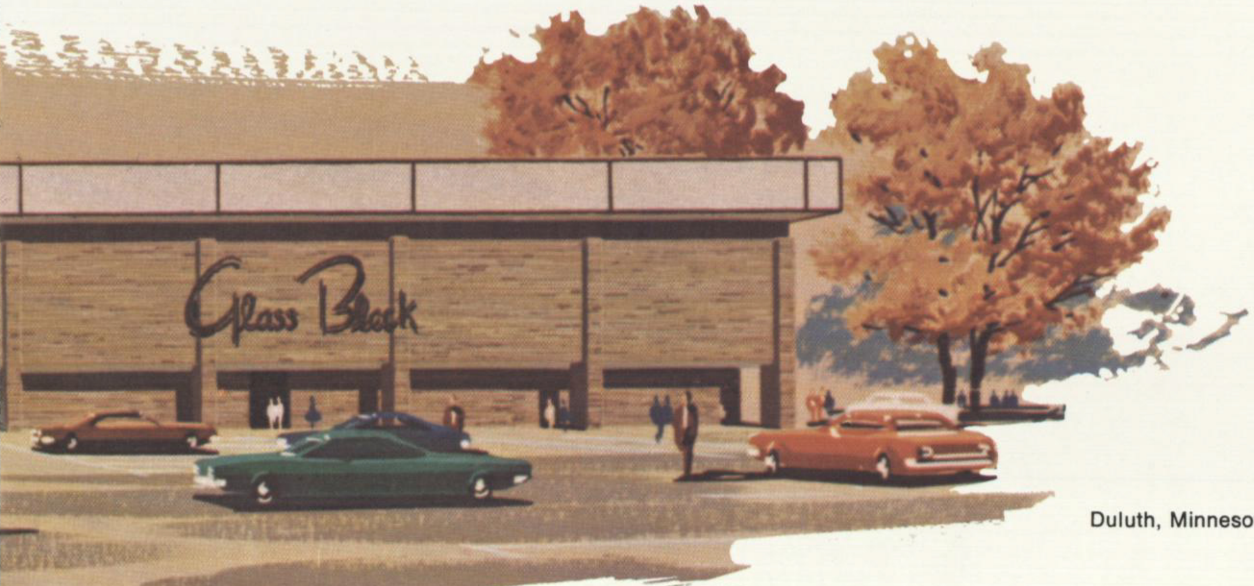
We are continuing to expand our program of automation in proven areas of our business as well as exploring potential new areas of automated record keeping. Our data communication systems are being upgraded to expedite the transmission of raw data to the regional centers for processing.

Pension and Profit Sharing Plans

The Company is firmly of the opinion that the Savings and Profit Sharing Plan coupled with the Pension Plan has been a significant factor in attracting and retaining capable associates.

Both plans are open to all employees who have reached age 25 and have completed 2 years of service. Inclusion in the Pension Plan is automatic since it is non-contributory but an associate must indicate his or her acceptance of the Profit Sharing Plan by agreeing to a payroll deduction of 2, 4, 6, 8 or 10% of their remuneration.

There were 4801 participants in the Pension Plan at year end. The Plan with a market value of $14,575,000 is managed by First National City Bank. The Company



Duluth, Minnesota

contributed $1,507,000 in 1972 and $1,332,000 in 1971 towards the Plan.

Accrued pension costs are funded currently.

The Savings and Profit Sharing Plan had 4908 participants at the end of the year, but 908 employees joined on February 1, 1973, making the total at that date 5816 compared with 5502 on February 1, 1972.

The Profit Sharing Plan is actually two funds, both managed by Chemical Bank.

One fund represents the contribution of participants, invested in both equity and fixed income securities and was valued at $20,759,000.

The other fund, made up of contributions by the Company which are used to purchase common stock of Mercantile Stores Company, Inc., contained 206,300 shares worth $32,851,000, 7% of the Company's outstanding issue.

The Company makes a contribution to the Plan of 2% of its first $7,000,000 in profits before taxes and 5% of all profits in excess of $7,000,000. In this latest year, the Company contributed $1,840,000. Each participant was credited with 81¢ for each $1.00 contributed up to 6% of his or her earnings, (any contribution in excess of 6% is not considered when apportioning the Company's contribution). In 1971 the Company's contribution was $1,545,000.

After joining the Profit Sharing Plan and being employed by the Company for five years, the participant's share of the Company's contribution becomes fully vested.

Current Assets

Receivables

Consumer credit has grown at a very rapid rate. In our own case, credit sales increased by almost $30,000,000 and represented 44% of total sales, a slight increase from last year's 43.8%.

Receivables were as follows:

	January 31	
	1973	1972
Customer Accounts		
Regular Retail	$ 9,087,000	$ 8,722,000
Revolving Charge	45,525,000	36,731,000
Installment	7,941,000	6,882,000
	62,553,000	52,335,000
Other Accounts	6,369,000	3,223,000
	68,922,000	55,558,000
Less-Reserve for Doubtful Accounts	3,449,000	2,885,000
Less-Accounts Sold to Mersco Finance Corporation, net of retained equity of $5,250,000 and $4,280,000, respectively	47,248,000	38,520,000
	50,697,000	41,405,000
	$18,225,000	$14,153,000

Almost half of our increased credit sales have been in a type of account known as Revolving Charge. During the past several years, competitive conditions have fostered a growth in this type of account. It must be recognized that there is a greater risk of delinquency in Revolving Credit than in the more conventional Regular Charge.

While we have noticed a slight increase in delinquency, our bad debt experience remained at a very satisfactory level. Strong collection emphasis with the use of computers is placed on bringing accounts from a state of delinquency to a current condition.

On Regular 30 Day charge accounts, if at least 20% of the balance of an account isn't collected within a

Auburn, Alabama

span of six consecutive months, the account balance is charged against the reserve for doubtful accounts.

On installment accounts, if at least one full required monthly payment isn't received within a span of four consecutive months, the account balance is charged to the reserve.

All accounts charged to the reserve for doubtful accounts are followed up for collection either by the store or a local collection agency.

Billing of customer receivables is done by computers from our three data processing centers, one each in Kansas City, Cincinnati and New York.

Our reserve for doubtful accounts is equal to 5½% of our outstanding receivables. The Company feels that such a reserve is required in an economy where there is such a widespread and liberal use of consumer credit.

On the accompanying income statement the gross profit on all sales, including credit sales, are recorded in full when the sales are made. On the tax return for 1972, the Company will report the profit on revolving and installment sales for the first time on what is known as the installment method. The deferred income taxes resulting therefrom are classified as a current liability.

Inventory and Shrinkage

Inventories at year end rose by 22% to $79,975,000. The increase was attributed to the merchandise required for the new stores as well as that necessary for the higher volume of business being conducted by the Company.

Unaccounted losses between the physical and book inventories (known as shrinkage) remained at a very satisfactory level.

Inventories are stated at cost or market value, whichever is less, determined by the retail method.

Cash Flow

Funds provided from operations were:

Net Income	$20,756,000
Depreciation (straight line)	7,557,000
Deferred Income Tax	1,092,000
	$29,405,000

which was $9.98 per share compared to the $8.20 realized in the prior year.

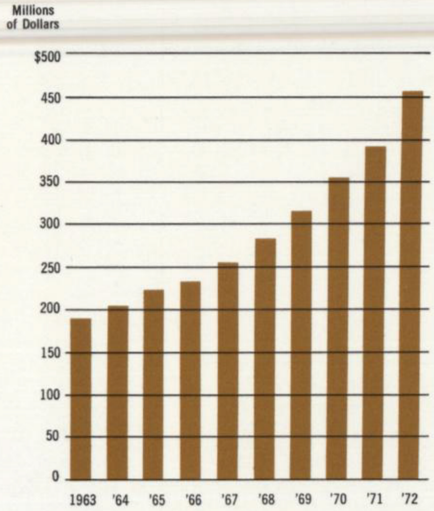
Stockholders' Equity

Retained earnings together with capital and capital surplus brought the book value up to $47.37 per share.

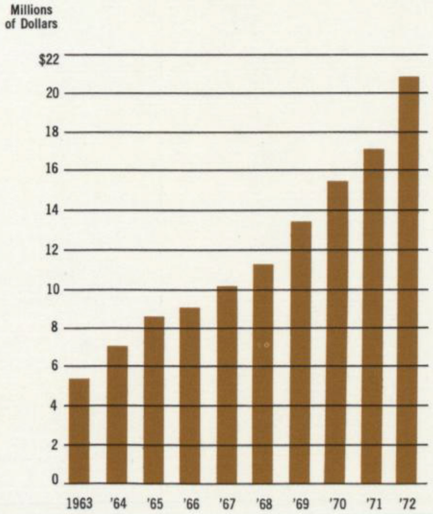
Although an existing loan agreement contains a restriction on the payment of cash dividends, at January 31, 1973, $45,712,000 was free of this restriction.

a decade of growth

NET SALES

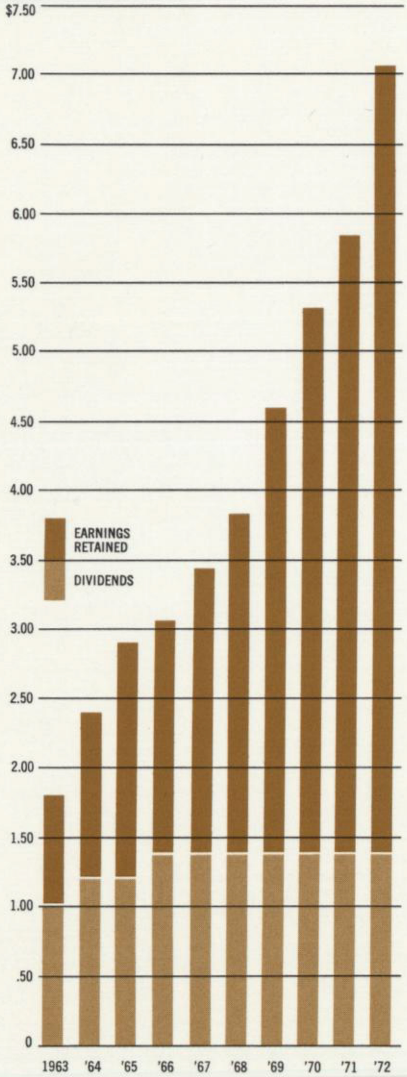


NET EARNINGS*



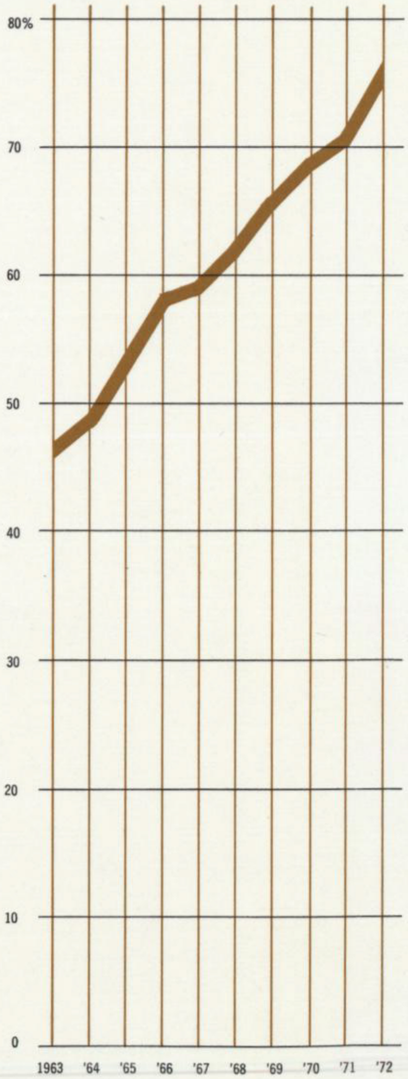
*NOT INCLUDING EXTRAORDINARY ITEMS.

EARNINGS,* DIVIDENDS AND RETAINED EARNINGS* PER SHARE OF STOCK



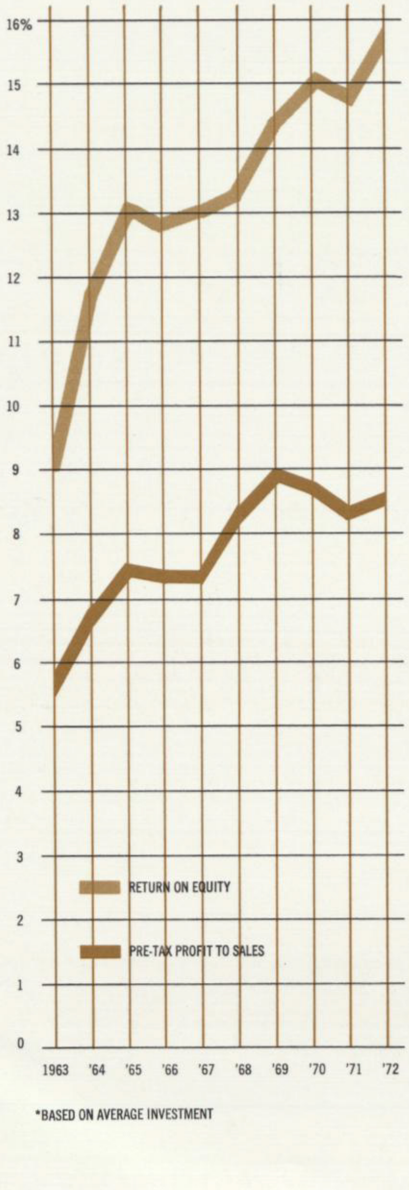
*NOT INCLUDING EXTRAORDINARY ITEMS.

SUBURBAN STORE SALES % OF TOTAL SALES



financial statements

PERCENTAGE OF PRE-TAX PROFIT
TO SALES AND RETURN ON EQUITY*



*BASED ON AVERAGE INVESTMENT

auditors' report

To the Stockholders and Board of Directors of
Mercantile Stores Company, Inc.:

We have examined the consolidated balance sheets of Mercantile Stores Company, Inc. (a Delaware corporation) and subsidiary companies as of January 31, 1973 and 1972, and the related statements of consolidated income, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Mercantile Stores Company, Inc. and subsidiary companies as of January 31, 1973 and 1972, and the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods after giving retroactive effect to the change in accounting for the investment in Mersco Finance Corporation as explained on page 5.

Arthur Andersen & Co.

New York, N. Y.,
April 5, 1973.

statements of consolidated income and retained earnings

For the years ended January 31, 1973 and 1972

	1973	1972
Net Sales	**$458,328,000**	$393,258,000
Deduct:		
Cost of goods sold and expenses, exclusive of items listed below	**388,287,000**	334,550,000
Depreciation and amortization	**7,557,000**	6,235,000
Rentals — see page 8	**5,743,000**	5,017,000
Pension and profit sharing — see page 9	**3,760,000**	3,253,000
Interest	**4,127,000**	3,731,000
Taxes — including deferred taxes of $8,171,000 in 1973 and $682,000 in 1972		
Federal income	**18,400,000**	15,390,000
Other	**9,698,000**	7,831,000
Total	**437,572,000**	376,007,000
Net Income	**$ 20,756,000**	$ 17,251,000
Earnings per share	**$7.04**	$5.85

In the annual reports to the Securities and Exchange Commission, the cost of goods sold, central buying and occupancy expenses are $314,682,000 and $269,943,000 respectively, for the years ended January 31, 1973 and 1972; selling, general and administrative expenses are $101,512,000 and $87,775,000 respectively.

Retained Earnings	1973	1972
Balance, beginning of year	**$111,469,000**	$ 98,345,000
Net Income	**20,756,000**	17,251,000
	132,225,000	115,596,000
Dividends — $1.40 per share, in each year	**4,127,000**	4,127,000
Balance, end of year	**$128,098,000**	$111,469,000

statements of consolidated changes in financial position

For the years ended January 31, 1973 and 1972

	1973	1972
Sources of Working Capital:		
Net income	**$20,756,000**	$17,251,000
Depreciation and amortization	**7,557,000**	6,235,000
Increase in deferred income taxes	**1,092,000**	682,000
Funds provided from operations	**29,405,000**	24,168,000
Net proceeds from sale of land	**1,379,000**	775,000
	30,784,000	24,943,000
Dispositions of Working Capital:		
Dividends paid	**4,127,000**	4,127,000
Additions to property and equipment	**19,766,000**	20,496,000
Reduction in long-term debt	**1,576,000**	1,449,000
Increase in other investments	**400,000**	193,000
Increase in equity in Mersco Finance Corporation	**941,000**	26,000
	26,810,000	26,291,000
Increase (Decrease) in Working Capital	**$ 3,974,000**	($ 1,348,000)
Changes in Working Capital:		
Current assets—		
Cash	**($ 4,772,000)**	($ 7,258,000)
Receivables	**8,352,000**	1,356,000
Due from Mersco Finance Corporation	**(2,448,000)**	(416,000)
Inventories	**14,553,000**	7,447,000
Prepayments and other	**72,000**	(825,000)
Total	**15,757,000**	304,000
Current liabilities—		
Accounts payable	**5,292,000**	1,434,000
Accrued liabilities	**1,269,000**	786,000
Federal income taxes	**(1,843,000)**	(557,000)
Deferred income taxes on installment sales	**7,079,000**	—
Debt due within one year	**(14,000)**	(11,000)
Total	**11,783,000**	1,652,000
Increase (Decrease) in Working Capital	**$ 3,974,000**	($ 1,348,000)

consolidated balance sheets

January 31, 1973 and 1972

ASSETS

Current Assets:	**1973**	1972
Cash, including certificates of deposit	**$ 10,197,000**	$14,969,000
Receivables — see page 10	**18,225,000**	14,153,000
Due from Mersco Finance Corporation	**28,493,000**	26,661,000
Inventories — at lower of cost or market-retail method	**79,975,000**	65,422,000
Prepayments and other	**2,279,000**	2,207,000
Total Current Assets	**139,169,000**	123,412,000
Other Investments	**2,103,000**	1,703,000
Equity in Mersco Finance Corporation	**1,173,000**	232,000
Property and Equipment, at cost:		
Land	**7,840,000**	8,865,000
Buildings and improvements	**73,683,000**	65,013,000
Fixtures	**49,297,000**	42,904,000
	130,820,000	116,782,000
Less accumulated depreciation	**43,452,000**	40,244,000
Property and Equipment — Net	**87,368,000**	76,538,000
Total	**$229,813,000**	$201,885,000

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:	**1973**	1972
Accounts payable	**$ 29,187,000**	$ 23,895,000
Accrued liabilities	**12,341,000**	11,072,000
Federal income taxes	**1,006,000**	2,849,000
Deferred income taxes on installment sales	**7,079,000**	—
Debt due within one year	**1,429,000**	1,443,000
Total Current Liabilities	**51,042,000**	39,259,000
Long Term Debt — see page 6	**34,243,000**	35,819,000
Deferred Income Taxes applicable to depreciation	**4,881,000**	3,789,000
Stockholders' Equity:		
Common stock — $1.83 1/3 par value Authorized 2,950,998, issued 2,947,818 shares (after deducting 3,180 treasury shares)	**5,404,000**	5,404,000
Capital surplus	**6,145,000**	6,145,000
Retained earnings — see page 11	**128,098,000**	111,469,000
Stockholders' Equity	**139,647,000**	123,018,000
Total	**$229,813,000**	$201,885,000

ten-year review

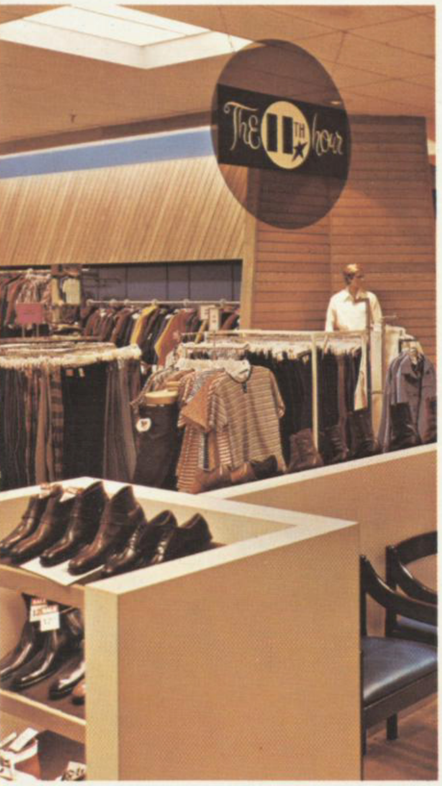
Year ended January 31	1973	1972	1971
Operating Results			
Net sales	**$458,328,000**	$393,258,000	$353,464,000
Income before Federal income taxes	**39,156,000**	32,641,000	30,380,000
Percent to sales	**8.5**	8.3	8.6
Income before extraordinary item	**20,756,000**	17,251,000	15,680,000
Percent to sales	**4.5**	4.4	4.4
Extraordinary item	**—**	—	1,007,000
Dividends paid	**4,127,000**	4,127,000	4,127,000
Per Common Share			
Income before extraordinary item	**$ 7.04**	$ 5.85	$ 5.32
Extraordinary item	**—**	—	.34
Dividends	**1.40**	1.40	1.40
Cash flow	**9.98**	8.20	7.56
Financial Position			
Working capital	**$ 88,127,000**	$ 84,153,000	$85,501,000
Ratio of current assets to current liabilities	**2.73**	3.14	3.27
Receivables — net	**18,225,000**	14,153,000	12,797,000
Due from Mersco Finance Corporation	**28,493,000**	26,661,000	27,077,000
Merchandise inventories	**79,975,000**	65,422,000	57,975,000
Property and equipment — net	**87,368,000**	76,538,000	63,052,000
Total assets	**229,813,000**	201,885,000	188,844,000
Long term debt	**34,243,000**	35,819,000	37,268,000
Retained earnings	**128,098,000**	111,469,000	98,345,000
Stockholders' equity	**139,647,000**	123,018,000	109,894,000
Per common share	**47.37**	41.73	37.28
Number of shares outstanding	**2,947,818**	2,947,818	2,947,818
Other Data			
Capital expenditures	**$ 19,766,000**	$ 20,496,000	$ 14,178,000
Depreciation	**7,557,000**	6,235,000	5,182,000
Number of stores	**71**	69	66
Total square feet	**6,863,000**	6,256,000	5,656,000

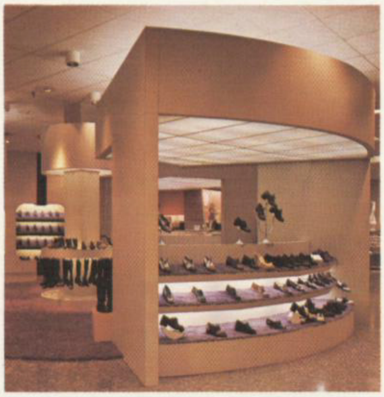
1970	1969	1968	1967	1966	1965	1964
$318,353,000	$285,585,000	$256,550,000	$234,267,000	$220,610,000	$207,261,000	$192,409,000
28,322,000	23,766,000	18,731,000	17,046,000	16,265,000	13,979,000	10,923,000
8.9	8.3	7.3	7.3	7.4	6.7	5.7
13,562,000	11,351,000	10,182,000	9,074,000	8,600,000	7,132,000	5,370,000
4.3	4.0	4.0	3.9	3.9	3.4	2.8
—	—	1,387,000	—	—	—	—
4,127,000	4,127,000	4,127,000	4,127,000	3,537,000	3,537,000	2,948,000
$ 4.60	$ 3.85	$ 3.45	$ 3.08	$ 2.92	$ 2.42	$ 1.82
—	—	.47	—	—	—	—
1.40	1.40	1.40	1.40	1.20	1.20	1.00
6.26	5.46	5.39	4.30	4.06	3.61	2.97
$ 57,414,000	$ 52,679,000	$ 46,387,000	$ 43,829,000	$ 41,147,000	$ 38,651,000	$ 36,636,000
2.75	2.66	2.80	2.79	2.57	2.68	2.60
12,536,000	12,884,000	12,083,000	11,485,000	11,349,000	12,051,000	11,264,000
14,109,000	16,186,000	7,599,000	9,738,000	11,811,000	8,225,000	7,635,000
50,321,000	46,017,000	39,757,000	33,325,000	32,179,000	30,124,000	29,666,000
54,622,000	52,171,000	48,319,000	44,157,000	42,031,000	40,714,000	40,357,000
146,898,000	137,726,000	121,909,000	113,949,000	111,387,000	104,439,000	102,123,000
14,102,000	15,731,000	13,526,000	14,572,000	15,858,000	16,177,000	17,407,000
85,785,000	76,350,000	69,126,000	61,684,000	55,705,000	51,674,000	48,079,000
97,334,000	87,899,000	80,675,000	73,234,000	67,255,000	63,223,000	59,629,000
33.02	29.82	27.37	24.84	22.82	21.45	20.23
2,947,818	2,947,818	2,947,818	2,947,818	2,947,818	2,947,818	2,947,818
$ 7,970,000	$ 8,178,000	$ 8,634,000	$ 6,887,000	$ 4,560,000	$ 3,771,000	$ 3,621,000
4,613,000	4,326,000	3,983,000	3,485,000	3,243,000	3,413,000	3,248,000
62	61	61	60	58	60	61
5,134,000	5,005,000	4,942,000	4,630,000	4,427,000	4,447,000	4,150,000

Lion
NO SMOKING

The Lion of Toledo

MODERATE
SPORTSWEAR





The Lion Store was founded by Frederick Eaton in 1857, just three years before Lincoln was elected President. Known as the "Bee Hive," good merchandising enabled it to weather the 1857 financial panic in Toledo that resulted in the bankruptcy of The Ohio Trust Co.

The original store grew rapidly and, in 1861, it was moved to larger quarters and was renamed "Lion Dry Goods Co." The name was symbolized by the presence of two magnificent, cast iron male lions that still guard the entrance to the store. The Lions have shared in Toledo's history in many ways. Among other things, they have been traditionally bathed in the past by sorority and fraternity pledges, "ridden" by practically all Toledo children of yesteryear and pulled down the street by their tails during the World War I celebration.

The present store location dates to the late 1870's. Through the years, as business prospered, contiguous buildings were acquired for expansion purposes. Today, the downtown store is comprised of a cohesive grouping of seven different buildings.

In 1962, a major remodeling including new, bright, innovative decor and design, addition of escalators, a new restaurant—"The Copper Lantern," a new beauty salon and a complete rearrangement of departments took place. Remodeling of individual areas has continued, keeping the store a modern, bright and inviting place to shop.

The first major expansion to the suburbs occurred in 1957 when a two story, 90,000 square foot unit opened in the 310,000 square foot Westgate Village Shopping Center as the only major anchor tenant. In spite of numerous, new, competitive stores and enclosed mall developments nearby and around the city, the store has flourished. There were major additions to the store in 1960, when a third floor was added; in 1964, when a 36,000 square foot enlargement took place; and in 1967 when the addition of 15,000 square feet brought the store to the present 190,000 square foot size. Aided by these additions, the store has the enviable record of having achieved a sales increase every year of its existence. Each time the store was enlarged, a concurrent remodeling of existing departments modernized the store so that it continues to reflect a young and contemporary look.

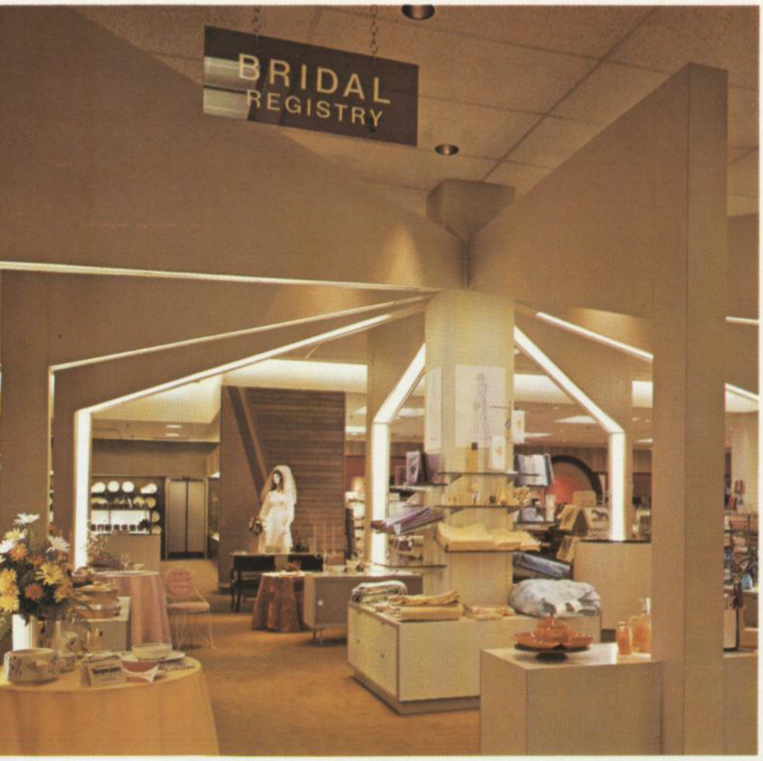
Just last August, a sparkling, new, 190,000 square foot store was opened in Southwest Toledo. Beautiful Lion Southwyck anchors one end of the 900,000 square foot Southwyck Shopping Center enclosed mall. Southwyck has enjoyed instant success, easily outstripping the initial sales projection figures.

The accompanying photographs were all taken in the new Southwyck Store. They exemplify the merchandising concepts and fashion direction of the total Lion Store operation. Bright, colorful decor reflects the good taste always required of its merchandise. Departments are large and spacious, allowing room for complete merchandise assortments in each category represented.

Fashion is stressed in all divisions—from clothes and accessories for the entire family to fine furnishings for the home. However, emphasis is also placed on complete stocks, offering Toledoans broad selections of the most wanted merchandise.

Lion Store's merchandising philosophy is to appeal to the broad middle to upper income consumer. Moderately priced merchandise, reflecting both fashion and value, is stocked in depth offering outstanding selections. This has resulted in Lion enjoying a reputation for always having good values every day of the week. Customers do not have to wait for sale events to receive good value.

As an example of this philosophy, in women's apparel, fashionable women select from couture fashions by such famous names as Kimberly, Jerry Silverman, Teal Traina, etc. presented in a glam-



orous salon setting. In addition, large assortments of more moderately priced dresses are also well displayed.

This concept prevails throughout the store. Complete mens, childrens, misses and junior sportswear departments have the reputation of having the largest assortments in the Toledo area offering the best selections of fine name brand as well as Mercantile's own, private label, value conceived merchandise.

In the home furnishings area, a large, tastefully accessorized furniture department, distinctive drapery and floor covering departments and a strikingly beautiful china, gift and silverware department typify the emphasis placed on quality. Such fine lines as Henredon furniture, Gorham and Towle silver, Lennox china and Waterford glass are examples of the direction Lion takes in selling fashion throughout the store. At the same time, outstanding promotional values are offered regularly in order to relate to and attract customers of more moderate means.

To carry out their merchandising philosophy, Lion Store management has a constant reserve of talented young men and women in training ready to take responsible positions. Practically the entire management and buying staff has come from this group of Company trained personnel.

Great attention is also placed on customer service. People are recognized as the most important ingredient in any successful business and, at Lion, emphasis is placed on competently trained, interested, knowledgeable and friendly sales personnel.

In recent years, Toledo's industrial base has expanded rapidly. This base is anchored by three of the nation's largest glass corporations making it the "Glass Capital of the World." Toledo industry is also strongly automotive oriented with numerous original and replacement equipment manufacturers boasting sales that place them among the largest companies in the country. Toledo's "Gateway to the Sea" has developed at a rapid pace and is now the third largest on the Great Lakes and eleventh largest in the nation. Seven of the nation's five hundred largest corporations are headquartered in Toledo.

Toledo has prospered well—and Lion is proud to have led the way in department store merchandising in this great city.

David Crystal Room

FOUNDATIONS

Bacons

Established 1845

Louisville, Kentucky
H. Marvin Dorethy, President
- Bashford Manor
- St. Matthew's
- Shively
- Jeffersonville, Ind.

GAYFER'S

Established 1879

Mobile, Alabama
Robert W. Holcomb, President
- Downtown Mobile
- Springdale
- Pensacola, Fla. (2)
- Tallahassee, Fla.
- Clearwater, Fla.
- Edgewater, Miss.
- Jackson, Miss.

the Jones Store co.

Established 1887

Kansas City, Missouri
Ronald W. Ferguson, President
- Downtown Kansas City
- Blue Ridge
- Independence
- Prairie Village, Kans.
- Pittsburg, Kans.
- Overland Park, Kans.

Castner Knott Co.

Established 1898

Nashville, Tennessee
James C. Lovell, President
- Downtown Nashville
- Green Hills
- Donelson
- Shelbyville
- Harding Mall
- Rivergate
- Bowling Green, Ky.

Glass Block

Established 1887

Duluth, Minnesota
Robert W. Tyler, President
- Downtown Duluth

JL Joslins

Established 1873

Denver, Colorado
Donald R. Chabot, President
- Downtown Denver
- Downtown Pueblo
- Englewood
- Greeley
- Boulder
- Aurora
- Villa Italia

de Lendrecie's

Established 1879

Fargo, North Dakota
Ray Klein, President
- Fargo

Hennessy's

Established 1885

Butte, Montana
Milo D. Skordal, President
- Downtown Butte
- Helena

Lazarus

Established 1889

Wilkes-Barre, Pennsylvania
Stanley R. Dahlgren, President
- Downtown Wilkes-Barre

GAYFER'S MONTGOMERY FAIR

Established 1868

Montgomery, Alabama
Stephen E. Maxwell, President
- Montgomery
- Eastbrook
- Opelika
- Tuscaloosa

the Root Store co.

Established 1856

Terre Haute, Indiana
Frank C. Schrohe, President
- Downtown Terre Haute
- Honey Creek
- Sullivan
- Robinson, Ill.

Lion

Established 1857

Toledo, Ohio
Leon F. Winbigler, President
- Downtown Toledo
- Westgate
- Southwyck

Peoples

Established 1888

Tacoma, Washington
Henry W. Powell, President
- Downtown Tacoma
- Yakima
- Lakewood
- Port Angeles
- Wenatchee
- Olympia (Lacey)

White's

AUGUSTA'S PACE SETTER

Established 1874

Augusta, Georgia
Paul A. Martsolf, President
- Downtown Augusta
- National Hills
- Aiken, S. C.

McAlpin's

Established 1852

Ohio Operations
David R. Huhn, President
- Downtown Cincinnati
- Kenwood
- Western Hills
- Cherry Grove
- Middletown
- Northgate

Kentucky Operations
Ralph T. Glassford, President
- Lexington, Ky. (2)

The Right House

Established 1843

Hamilton, Ontario, Canada
Russell W. Lackie, President
- Downtown Hamilton
- Brantford
- Cambridge
- St. Catharines
- Guelph

White's

Established 1874

Columbia, South Carolina
Thomas E. Hale, President
- Richland Mall
- Dutch Square

Mercantile Stores Company, Inc. 100 West 10th Street, Wilmington, Delaware 19899